

Message Text

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ORIGIN ARA-10

INFO OCT-01 SS-14 ISO-00 L-02 EB-03 OPIC-02 TRSE-00 COME-00

NSC-07 NSCE-00 EUR-10 STR-01 CIEP-01 OMB-01 EA-13

AF-04 CIAE-00 INR-10 NSAE-00 RSC-01 /080 R

DRAFTED BY ARA/CAR:KNROGERS:JET

APPROVED BY ARA:JBKUBISCH

ARA/CAR:JRBURKE

L:MFELDMAN

EB:MKENNEDY

ARA:HWSHLAUDEMAN

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P 172243Z MAY 74

FM SECSTATE WASHDC

TO AMEMBASSY KINGSTON PRIORITY

AMEMBASSY GEORGETOWN PRIORITY

AMEMBASSY PORT OF SPAIN PRIORITY

AMEMBASSY BRIDGETOWN PRIORITY

AMEMBASSY SANTO DOMINGO PRIORITY

AMEMBASSY NASSAU PRIORITY

AMEMBASSY PORT AU PRINCE PRIORITY

AMCONSUL PARAMARIBO PRIORITY

AMEMBASSY LONDON PRIORITY

AMCONSUL BELIZE PRIORITY

AMEMBASSY CONAKRY PRIORITY

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AMEMBASSY OTTAWA PRIORITY

AMEMBASSY BELGRADE PRIORITY

AMEMBASSY FREETOWN PRIORITY

C O N F I D E N T I A L STATE 103965

LIMDIS

E.O. 11652: GDS

TAGS: PINT, ENID, EMIN, EFIN, JA, US

SUBJECT: GOVERNMENT OF JAMAICA ANNOUNCES LEGISLATION FIXING

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HIGH TAXES ON U.S. AND CANADIAN ALUMINIUM COMPANIES

OPERATING IN JAMAICA -- BACKGROUND.

1. ON MARCH 15, THE GOVERNMENT OF JAMAICA, THROUGH THE JAMAICA NATIONAL BAUXITE COMMISSION, OPENED DISCUSSIONS AND NEGOTIATIONS WITH FIVE U.S. ALUMINUM COMPANIES: ALCOA, KAISER, REVERE, ANACONDA, AND REYNOLDS AND THE ALUMINUM COMPANY OF CANADA RELATIVE TO THE FUTURE OF INVESTMENTS IN THE BAUXITE/ALUMINA INDUSTRY IN JAMAICA.

2. IN PART, THIS WAS OCCASIONED BY HEAVY COSTS IMPOSED BY THE ENERGY CRISIS AND THE STRAINS ON THE ECONOMY CAUSED BY THE BLOATED INFLATION OF MANY IMPORTED PRODUCTS.

3. THE JAMAICANS HAVE STATED THAT THEY HAD BEEN STUDYING THE MATTER OF THE INDUSTRY FOR ABOUT TWO YEARS.

MID-MARCH, AT THE REQUEST OF THE GOJ, NEGOTIATIONS BEGAN IN JAMAICA. THIS FIRST ROUND OF NEGOTIATIONS WHICH ESSENTIALLY RELATED TO REVENUE ISSUES, CONTINUED UNTIL MAY 15. THROUGHOUT THE PERIOD THE DEPARTMENT WAS KEPT CLOSELY INFORMED OF DEVELOPMENTS BY THE COMPANIES AND THE JAMAICANS. THE USG NEVER PARTICIPATED DIRECTLY IN THE NEGOTIATIONS, BUT WE ENCOURAGED AND EVEN URGED ALL PARTIES TO MAKE EVERY EFFORT TO REACH MUTUALLY ACCEPTABLE AGREEMENTS. THE NEGOTIATIONS WERE CARRIED OUT QUIETLY AND WITHOUT PRESS ATTENTION.

4. JAMAICAN BAUXITE IS IMPORTANT TO THE U.S. ECONOMY, SINCE 67 PERCENT OF OUR BAUXITE AND 28 PERCENT OF OUR ALUMINA (REFINED BAUXITE) REQUIREMENTS ARE PRESENTLY SUPPLIED FROM JAMAICA. MOREOVER, \$473 MILLION OF THE ESTIMATED \$660 MILLION INVESTED BY THE U.S. ALUMINUM INDUSTRY IN JAMAICA IS COVERED BY OPIC INVESTMENT GUARANTEES. MANLEY HAS ALWAYS MAINTAINED NATIONALIZATION WAS NOT RPT NOT PART OF HIS POLICY.

5. ON MAY 15, PRIME MINISTER MANLEY MADE A PUBLIC REPORT IN PARLIAMENT ON THE NEGOTIATIONS OUTLINING THE REQUIREMENTS WHICH "COMPELLED" JAMAICA TO SEEK A NEW ARRANGEMENT WITH THE COMPANIES, INDICATING THE LOGIC AND THE FIGURES
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THE GOVERNMENT HAD USED IN ARRIVING AT ITS CONCLUSIONS AND NEGOTIATING POSITION, AND DESCRIBING THE THRUST OF THE GOVERNMENT'S POSITION, NOT ONLY IN TERMS OF REVENUES, BUT OTHER ISSUES AS WELL. MANLEY SAID THAT LEGISLATIVE STEPS WOULD BE TAKEN AS A RESULT OF FAILURE TO ACHIEVE A NEGOTIATED SOLUTION WITHIN THE TIME MADE AVAILABLE BY THE GOVERNMENT. HE SAID THAT THE COMPANIES HAD NOT BEEN ABLE ADEQUATELY TO SUPPORT THEIR CASE.

6. IN OUTLINING THE THRUST OF THE JAMAICAN THEORY IN CONDUCTING THE NEGOTIATIONS, MANLEY INCLUDED:

A) A REVENUE FORMULA BASED ON THE VALUE OF ALUMINUM IDENTIFIED BY SOME OBJECTIVE CRITERIA WHICH WOULD GREATLY INCREASE JAMAICA'S GROSS TAKE AND WOULD EQUALIZE REVENUES DERIVED FROM BAUXITE EXPORTED AND BAUXITE PROCESSED INTO ALUMINA IN JAMAICA.

B) MEASURES TO BRING A FAR GREATER PROPORTION OF THE RESOURCES DEVOTED TO THE INDUSTRY INTO AND THROUGH JAMAICA TO EASE ITS BALANCE OF PAYMENTS PROBLEMS.

C) RESUMPTION OF OWNERSHIP OF SURFACE RIGHTS OF LANDS CURRENTLY OWNED BY THE COMPANIES.

D) RESUMPTION OF CONTROL OF BAUXITE RESERVES BY THE GOJ, "OWNERSHIP OF WHICH HAS ALWAYS BEEN LEGALLY VESTED IN THE GOJ."

E) THE ENTERING INTO EQUITY PARTICIPATION IN THE OWNERSHIP OF THE OPERATING COMPANIES IN JAMAICA.

7. THE REVENUE FORMULA IS A LEVY OF 7.5 PERCENT OF THE REALIZED PRICE OF PRIMARY METAL RETROACTIVE TO JANUARY 1, 1974 FOR THE 1974-75 FISCAL YEAR; AND 8.0 PERCENT AND 8.5 PERCENT IN 1975 AND 1976 FISCAL YEARS RESPECTIVELY. IN ADDITION, THERE IS A J\$.50 PER TON ROYALTY ON ALL BAUXITE MINED WHETHER DESTINED FOR EXPORT OR ALUMINA PLANTS IN JAMAICA. THE NET RESULT OF THIS FORMULA FOR THIS FISCAL YEAR PLUS THREE MONTHS RETROACTIVE TO JANUARY 1 IS APPROXIMATELY J\$177 MILLION, OR MORE THAN 7 TIMES CURRENT
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REVENUES. MANLEY SAID THAT A PRODUCTION FLOOR OF 14 MILLION TONS ANNUALLY WOULD BE ESTABLISHED AND THAT THE BULK OF THE REVENUES DERIVED BY THE FORMULA WOULD BE PLACED IN A SPECIAL CAPITAL DEVELOPMENT FUND AND WOULD NOT BE USED FOR CURRENT EXPENDITURES.

8. THERE IS NO DOUBT THAT JAMAICA'S NEED FOR ADDITIONAL REVENUE IS GREAT, BUT THE HEAVY DEMANDS OF THE PROPOSED LEGISLATION, IMPOSED SO SOON AFTER THE NEGOTIATIONS BEGAN, SEEM PARTLY INSPIRED BY MANLEY'S FELT NEED TO BE SEEN IN THE "THIRD WORLD" AS A SERIOUS FIGURE.

9. THE DEPARTMENT HAS EXPRESSED TO THE GOJ, THROUGH ITS CHARGE IN WASHINGTON, "DEEP DISSAPOINTMENT" THAT THE NEGOTIATIONS HAVE FAILED TO RESULT IN AN AGREEMENT WITH

THE COMPANIES. THE HOPE WAS ALSO EXPRESSED THAT IN
IMPLEMENTING THE LEGISLATION AND IN CONTINUING ITS DISCUSS-
IONS WITH THE COMPANIES THAT GOJ WOULD DO EVERYTHING IT
COULD TO MINIMIZE THE UNFAVORABLE CONSEQUENCES THAT WERE
SURE TO FLOW FROM ITS ACTION. RUSH

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ALUMINUM, TAX LAW, BUSINESS FIRMS, TAXES, CENTRAL LEGISLATURE
Control Number: n/a
Copy: SINGLE
Draft Date: 17 MAY 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE103965
Document Source: CORE
Document Unique ID: 00
Drafter: KNROGERS:JET
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740123-0299
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740537/aaaabgon.tel
Line Count: 174
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2002 by shawdg>; APPROVED <25 JUL 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOVERNMENT OF JAMAICA ANNOUNCES LEGISLATION FIXING CONFIDENTIAL
TAGS: PINT, EIND, EMIN, EFIN, JA, US, (MANLEY)
To: KINGSTON MULTIPLE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005